Performance Audit of the Idaho Transportation Department (ITD)

Phase I

SCOPE OF WORK

(Report Due to Legislature: Mid-January 2009)

This Scope of Work encompasses the study questions and issues expressed in HCR 50 that can be addressed in time for the Legislature's consideration in January 2009.

The Request for Information (RFI) will be advertised for the Scope of Work described below, with the exception of Scope Section 1.B, which would be contracted separately. Section 1.B pertains to the adequacy of the financial plan for highways and will require special expertise that we would not expect to find among potential respondents for the remaining elements of the Scope of Work. We will require, however, that the work involved in Sections 1.B (financial planning) and 1.C (project planning and budgeting) will be coordinated among consultants.

If possible, we also intend to engage a transportation sector professional organization or nationally recognized state agency to provide peer assistance in a particular area, such as value engineering. We will seek such assistance if it does not present a conflict of interest and can be provided at a minimal or low cost and in a timely manner.

If the Legislature deems necessary, Phase 2 of this evaluation would involve an in-depth review of Section 3.A using case studies. In addition, Phase 2 would address any cross-cutting issues identified in Section 4 needing further analysis.

Legislative appropriations of $550,000 for this study will cover the cost of both phases and the cost of two managing consultants who will assist OPE in managing the entire study.

Section 1. Management and Performance

1.A. How does the management and governance structure of ITD, particularly in relation to the performance of the state's highway programs, compare to transportation industry benchmarks and best practices?

Potential Measurement and Approach

Review the administrative structure of ITD and compare it to other public transportation agency operations. Evaluate the effectiveness of communication between agency management and the ITD Board. Identify how the governance structure affects the selection of projects and the conduct of day-to-day operations, and compare this to best practices. Assess whether the current governance structure contributes to consistency in performance statewide. Review the relationship between the central office and the regional offices.

Over the last five years, in both the agency as a whole and in the Division of Highways in particular, evaluate administrative staff growth in comparison to growth in other direct service areas. To what extent has the increase in administrative staff been justified by measurable workload growth? Is the overall level of management, span of control, and support staffing appropriate? How do management turnover, succession planning, compensation levels, experience, and training compare to transportation sector benchmarks and best practices? Conduct a gap analysis of what is happening versus what should happen and how identification of any gaps can shed light on where real improvement can be made.

Throughout this Scope of Work, best practices are defined as techniques or methodologies that have been proven effective in leading to desired results.

1.B. As measured over an appropriate timeframe, does the manner in which ITD schedules, finances, and sets priorities for improvement projects minimize life-cycle costs?

Potential Measurement and Approach

Review whether the state's highway funding structure and ITD's short- and long-term financial plans are adequate for addressing improvement needs and for sustaining adequate investments in preservation and maintenance. Evaluate how ITD has determined the currently estimated funding shortfall of $245 million. Determine whether alternative financing and prioritization approaches could yield an improved value-to-cost ratio.

1.C. As measured over an appropriate timeframe, are planning and budgeting for highway maintenance, preservation, and improvement programs adequately integrated and coordinated, both among programs and with the short- and long-term financial plans?

Potential Measurement and Approach

Review the criteria used for project selection and prioritization, and compare that criteria to best practices. Conduct a gap analysis of what is happening versus what should happen and how identification of any gaps can shed light on where real improvement can be made.

Evaluate whether maintenance associated with planned preservation and improvement projects is adequately accounted for in the planned maintenance

program, and whether planned maintenance activities are adequately accounted for in the preservation program. Compare respective plans versus documented need. To the extent that backlogs of projects exist, evaluate how backlogs affect the coordination of project planning, budgeting, and implementation.

1.D. As measured over an appropriate timeframe, are the formulas used for scheduling and budgeting highway preservation and maintenance work adequate?

Potential Measurement and Approach

Analyze the documented models for pavement, bridge replacement and maintenance, and their use by ITD to determine whether they lead to the identification of the lowest life-cycle costs for preservation projects and maintenance activities (using transportation sector standards for assumptions of life-cycle cost analysis, value engineering, and sensitivity analysis, as appropriate).

1.E. Evaluate the metrics being used by ITD to evaluate the success of its highway programs.

Potential Measurement and Approach

Verify the reliability and validity of the performance data, self-assessment, and performance measures employed by ITD. Assess how this information is used by management to improve operations and to ensure the quality of its improvement, preservation, and maintenance programs. Determine whether this self-assessment process led to the identification of innovative techniques and approaches that lowered costs while maintaining quality. To the extent reliable data is available, and by appropriate metrics, compare how the costs of Idaho's maintenance, preservation, and improvement projects compare with other states, among regions within the state, and with the state's local jurisdictions. Also to the extent possible, quantify the potential cost savings of ITD meeting performance targets.

Section 2. Contractor Selection and Oversight

2.A. Does ITD's contracting process and supervision of consulting contracts, including those related to the GARVEE Transportation Program, follow transportation industry best practices, specifically:

a) Are the scopes of projects and the contractor selection process designed to ensure adequate opportunity for competition among qualified consultants?

b) Are the scopes of the projects to be performed by consultants carefully defined to limit the need for supplementals and add-ons?

c) Is ITD's oversight and management of its consultants adequate, including but not limited to such areas as auditing the consultant's task

performance, hours of work claimed, and requests for payment and performance?

d) What practices are used in determining the best price-to-value ratio on project contracts?

Potential Measurement and Approach

Review existing audit reports and other relevant evaluations and assessments. Document and evaluate the procedures for executing and administrating consultant contracts, such as progress reports, progress payments, post reviews, and final completion of contracts or agreements. Review controls for cost elements and fees (financial and performance).

For a sample of consultant contracts, including GARVEE contracts, review invoices and billings to determine if contract specifications are being met and if there are any weaknesses in policies, processes, or controls (including controls related to the administration and disbursement of funds).

Conduct a gap analysis of what is happening versus what should happen and how identification of any gaps can shed light on where real improvement can be made. As appropriate, include in the gap analysis the identification of any laws that hamper making improvements to the contracting process.

2.B. What procedures and procurement strategies are used by ITD to share the risk of project performance between the state and private contractors in the implementation of contractual work? Specifically, what are the precautions undertaken by ITD to insulate it from cost overruns, project delays, and construction cost fluctuations? When project changes must occur, identify the processes ITD employs to ensure value for the cost.

Potential Measurement and Approach

Identify best practices for identifying, assessing, mitigating, and accommodating risk in the implementation of highway projects. Additionally, identify best practices for incorporating cost overruns and time delays into project planning and budget. Conduct a gap analysis of what is happening versus what should happen and how identification of any gaps can shed light on where real improvement can be made.

Review whether and how risk sharing and risk management practices vary between projects managed under contract and those managed in-house by ITD's Division of Highways. Examine ITD's internal review process on change orders, including the process for confirming change order costs and the utilization of value engineering in evaluating change orders. Assess whether a fair but firm appeals process is in place and whether the process is adequately staffed.

Section 3. Outsourcing

3.A. Is ITD currently outsourcing professional service work that it is capable of performing in-house? Conversely, is ITD performing in-house work that could be outsourced? Examples of work include planning, environmental studies, right-of-way acquisition, design, legal review, and public contacts.

a) Is ITD's staff adequate to perform work in-house that is being outsourced?

b) Could cost savings result by either performing the work in-house or outsourcing the work?

c) Would the quality of the work improve by either performing the work in-house or by outsourcing it?

Potential Measurement and Approach

To the extent possible, compare the scope, costs, and quality of services provided by department staff to those services furnished by industry engineering consulting firms. Compare the costs of hiring and training technical and engineering positions with the costs of contracting for equivalent services.

Compare ITD practices to industry standards and/or best practices. Conduct a gap analysis of what is happening versus what should happen and how identification of any gaps can shed light on where real improvement can be made.

3.B. What is the array of state highway preservation and maintenance activities, and when, where, why, and by whom are these services provided? What are the costs and quality of services? What are the experiences of other states in contracting out comparable services?

Potential Measurement and Approach

Compare Idaho's costs and quality of preservation and maintenance services with comparable preservation and maintenance services in other states, including those that contract for services. Use recognized transportation sector standards for assessment of maintenance quality and cost. Analyze full-direct and indirect costs by cost component.

Identify any differences due to the statutory and regulatory environment or differences due to regional location that should be controlled for and addressed in making the preservation and maintenance services comparison. Determine whether potential costs and/or efficiency savings could be achieved by contracting some or a portion of the maintenance services, or by conducting operations differently. Identify the optimal mix of contracted and non-contracted services for Idaho's highway maintenance services.

Section 4. Cross-Cutting Issues

Based on the analysis conducted in Sections 1, 2, and 3, identify any cross-cutting issues that emerge in multiple topic areas. Such issues might include overlaps in programs or services, or state policies or legislation that hamper ITD's programs, increase costs, or limit options for efficiency.

This part of the performance audit should also develop "big picture" recommendations that will address the cross-cutting issues, how ITD might change its approach to its business and mission, and complement, reinforce, and bring together recommendations cited in the other sections of the audit.

Section 5. Summary of Recommendations

Summarize recommendations from Sections 1–4 and, to the extent possible, indicate whether implementation of recommendations will result in cost increases or cost savings, and quantify those cost impacts. Specify the priorities and timelines for ITD to implement the recommendations.